MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2003

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

I am honored to have the opportunity to be the fourth Commissioner of the Minnesota Housing Finance Agency. Governor Tim Pawlenty announced my appointment on April 17, 2003 and I assumed my duties after transitioning from private law practice on June 9, 2003. I have devoted much of my professional career as a lawyer, lobbyist, policy analyst, and public official (city attorney and deputy mayor for Saint Paul) to housing and community development and related public finance issues and look forward very much to leading the State Agency whose mission is to meet the state's needs for decent, safe, affordable homes and stronger communities.

The Governor's charge to me was to be a steward of the mission and resources of the Agency and to make a great Agency even better. This current financial report for fiscal year 2003 reflects the accomplishments and financial strength of the Agency as I assume the duties of Commissioner. As a result of the work and commitment of my predecessors, the Agency's board, the senior leadership and staff of the Agency, and the state of Minnesota's continued commitment to housing issues, I am confident that the Agency will thrive in this new Administration and continue to deliver on its mission for the state of Minnesota.

In the last program year (October 1, 2001 to September 30, 2002), the Agency continued its efforts to provide decent, safe, and affordable housing by serving over 54,000 households; 55% of the households served, excluding those living in Section 8 project-based housing, had annual incomes under $20,000. The Agency provided more than $520 million of housing assistance in three main areas: $265 million for homeownership programs, primarily in the form of first mortgages and entry cost assistance, $37 million for home improvement programs, and $217 million for rental housing programs, including financing of new construction, rehabilitation, preservation of federal assistance, and rental assistance. The considerable increase over the previous year of assistance provided for rental housing programs is largely due to two factors: the completion of developments funded with significant one-time only state appropriations made in FY 1999-2001 and the additional properties being added for the administration of the housing assistance payments contracts for the HUD-financed portfolio. The increase in housing assistance for homeownership programs over the previous year is attributable primarily to a higher volume of loans purchased using bond funds.

As of the end of the last fiscal year, the Agency oversaw a portfolio of more than 25,000 first mortgage and deferred loans for homeownership, 16,000 second mortgage loans for home improvement and 1,100 first mortgage and deferred loans for rental housing as well as administering the federal tax credit program.

The Agency continues to make progress on its goals of adding to the housing supply by increasing the number of new housing units it helps finance and of encouraging increased private sector investment in affordable housing. It remains a priority to achieve cost reductions through regulatory relief in order to reduce the amount of public subsidy necessary and stretch public funds further.

In the 2003 legislative session, Minnesota state government confronted a record state general fund budget short-fall of over $4.5 billon for 2004-05 or about 15% of the total budget. The Governor and the legislature made very difficult choices, and all state agencies and programs were affected in some way. Nevertheless, Minnesota continued its commitment to affordable housing programs by appropriating just over $69 million to Agency programs, a 12% reduction from the base budget for 2002-2003. In addition, in this fiscal environment, the Agency did not receive any one-time development funding for special programs as it did in 2000-2001.

MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report (continued)

The uncertainty of the future fiscal environment and continued unmet need for affordable housing will require increasing creativity and resourcefulness. These factors, coupled with the beginning of a new Administration, make this an opportune time to review and revise the Agency's 1999 strategic plan. We are in the beginning stages of revising this plan. Among the principles that will guide this process is a long-term commitment to stewardship of the Agency's mission and resources. I look forward to reporting on the highlights and initial implementation in next year's report.

Timothy E. Marx, Commissioner
Minnesota Housing Finance Agency
August 25, 2003

Independent Auditors' Report

To the Members of the
Minnesota Housing Finance Agency

We have audited the accompanying basic financial statements of the business-type activities and each major fund (General Reserve, Housing Development, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2003, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund (General Reserve, Housing Development, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency as of June 30, 2003 and the respective changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information, such as management's discussion and analysis on pages 6 through 17, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying supplementary information, such as the introductory section and the supplemental information section, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information, such as the introductory section and the supplemental information section, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

Minneapolis, Minnesota
August 25, 2003

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (MHFA or the Agency) was created in 1971 by an Act of the Minnesota legislature. It was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. MHFA is a component unit of the state of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. MHFA also receives funds appropriated by the federal government for similar purposes.

MHFA is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. The bonds and other obligations by law are not a debt of the state of Minnesota or any political subdivision thereof.

MHFA operates two program divisions — Multifamily and Minnesota Homes — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, allocation of the Federal Low Income Tax Credit, Minnesota's Housing Trust Fund and MHFA's endowment funds and Alternative Loan Fund.

The members of MHFA (hereinafter referred to as the Board) consist of five members appointed at large by the Governor and two ex-officio members (the State Auditor and the Commissioner of the Department of Employment and Economic Development).

Discussion of Financial Statements

The financial section consists of three parts — independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of MHFA:

- The first two statements are Agency-wide financial statements that provide information about MHFA's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within these Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used in any aggregate manner.
- The remaining statements are fund financial statements of MHFA's seven proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.
- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.
- Additional supplementary information is presented following the Notes to Financial Statements for certain funds of MHFA, which have been established under the bond resolutions under which MHFA borrows funds for its programs. These funds consist of General Reserve and the bond funds, which are Housing Development, Rental Housing, Residential Housing Finance, and Single Family.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2002. Although not required, these comparative totals are intended to facilitate an enhanced understanding of MHFA's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient cash for MHFA operations, to hold escrowed funds and to maintain the Housing Endowment Fund. On the Statement of Revenues and Expenses for General Reserve, only the costs of administering MHFA programs are captured. The fees earned are generally related to the administration of the federal housing credit program and contract administration of the Section 8 program for developments not financed by MHFA.

Housing Development

Activity in Housing Development during the year was limited to repayments and prepayments as MHFA took advantage of opportunities to refund the outstanding debt of this fund. During fiscal year 2003, Housing Development was closed and residual net assets of $2.003 million were transferred to Rental Housing.

Rental Housing

The majority of the loans presently held in Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially in the multifamily developments without project-based tenant subsidies. Maintaining asset quality remains a high priority for MHFA, so this portfolio continues to receive a significant amount of MHFA staff attention.

All of MHFA's new bond-financed multifamily loans are financed in Rental Housing. A portion of MHFA's Alternative Loan Fund is also available to finance multifamily developments.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the Bond Restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the Restricted by Covenant Alternative Loan Fund consisting of the Housing Investment and Housing Affordability Funds.

Bonds issued to date were for the purpose of funding purchases of single family first mortgage and home improvement subordinated mortgage loans. The majority of the single family loans held under these bond issues were FHA insured, or VA or RD guaranteed. This bond resolution is the principal source of financing for bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund and in fiscal year 2003 taxable bonds were issued to support home improvement lending.

The Home Improvement Endowment Fund continues to be the principal source of financing for MHFA's home improvement loan programs. Taxable bond proceeds and loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2003.

The Homeownership Endowment Fund is a source of funding for entry cost housing assistance for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing loans.

The Multifamily Endowment Fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing, such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

The Housing Investment Fund is currently invested in investment grade housing loans, as defined by MHFA, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Housing Affordability Fund includes a reserve, consisting of cash and investment grade housing loans, as defined by MHFA, for future administrative costs and other funds that may be

Discussion of Individual Funds (continued)

used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans, including zero-percent deferred loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

This fund was historically the principal source of financing for MHFA's bond-financed homeownership programs. In fiscal year 2002, MHFA began to utilize the Residential Housing Finance Fund as its principal source of financing for these programs, because of the increased flexibility afforded by that bond resolution. Certain Single Family funds in excess of bond resolution requirements are budgeted for and used for bond sale contributions in connection with bonds issued under the Residential Housing Finance Bonds resolution.

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee. Delinquency and foreclosure rates continue to track with the Minnesota Mortgage Bankers Association averages.

In addition to the uses described above, funds in excess of bond resolution requirements for each bond resolution described above are budgeted for and used to redeem bonds and to fund housing programs and Agency operations.

State and Federal Appropriated Funds

The appropriated funds are maintained by MHFA for the purpose of receiving and disbursing monies legislatively appropriated by the state and federal government for housing. All of the appropriated funds' net assets are restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged to support the bondholders or creditors of MHFA.

The State Appropriated Fund was established to account for funds received from the state legislature, which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs.

The Federal Appropriated Fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs.

General Overview

The following discussion is organized with two primary users in mind. The first primary user may be characterized with a focus on financial information particularly relevant from the perspective of bondholders and creditors of MHFA. The second primary user may be characterized with a focus on financial information particularly relevant to public funds appropriations, and the public policies those funds support.

The Agency defines the term "major funds" to include: General Reserve, Housing Development, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated.

MHFA financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The combined Agency-wide financial statements are provided to display a comprehensive view of all MHFA funds as required by generally accepted accounting principles. The Agency-wide financial statements reflect totals of similar accounts of various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency resolutions or legislation as further described below.

General Overview (continued)

Assets and revenues of the bond funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and creditors. General Reserve is created under the MHFA bond resolutions as part of the pledge of the general obligation of MHFA. MHFA covenants in the bond resolutions that it will use the money in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

MHFA has no taxing power and neither the state of Minnesota nor any subdivision thereof is obligated to pay the principal or interest on debt and bonds issued by MHFA. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in MHFA to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to MHFA by the State of Minnesota or made available to MHFA from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated Funds are not pledged to support the debt or general obligations of MHFA.

In addition to its audited annual financial statements, MHFA publishes quarterly disclosure reports for the Single Family Mortgage and Residential Housing Finance bond resolutions, and semi-annual disclosure reports for the Rental Housing bond resolution. These disclosure reports can be found on MHFA's web site at www.mhfa.state.mn.us.

Disclosure reports for the Housing Development bond resolution are no longer produced since there are no bonds outstanding and the fund was closed.

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Condensed Financial Information

Selected Elements From Statement of Net Assets (in $000's)

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2003	2002	$	2003	2002
Assets	Cash and Investments	1,297,550	1,178,925	118,625	1,173,305	1,031,650
	Loans Receivable, Net	1,478,002	1,681,340	(203,338)	1,450,478	1,654,060
	Interest Receivable	13,543	18,847	(5,304)	12,285	15,898
	Total Assets	2,793,810	2,883,273	(89,463)	2,640,039	2,705,122
Liabilities	Bonds Payable	1,846,679	1,936,188	(89,509)	1,846,679	1,936,188
	Interest Payable	43,464	48,347	(4,883)	43,464	48,347
	Funds Held for Others	88,116	94,979	(6,863)	86,344	94,278
	Total Liabilities	1,993,630	2,093,618	(99,988)	1,991,580	2,092,761
Net Assets	Restricted by Bond Resolution	382,253	352,166	30,087	382,253	352,166
	Restricted by Covenant	265,473	259,023	6,450	265,473	259,023
	Restricted by Law	151,721	177,294	(25,573)	—	—
	Total Net Assets	800,180	789,655	10,525	648,459	612,361

Selected Elements From Statement of Revenues, Expenses, and Changes in Net Assets (in $000's)

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2003	2002	$	2003	2002
Revenues	Interest Earned	150,367	165,337	(14,970)	145,010	157,187
	Appropriations Received	198,516	177,499	21,017	—	—
	Fees and Reimbursements	9,610	8,893	717	23,281	28,697
	Total Revenues	375,538	372,102	3,436	173,685	187,342
Expenses	Interest Expense	101,023	114,338	(13,315)	101,023	114,338
	Appropriations Disbursed	169,883	150,751	19,132	—	—
	Fees and Reimbursements	5,981	7,118	(1,137)	15,122	21,259
	Payroll, Gen. & Admin.	21,471	19,338	2,133	19,667	17,961
	Loan Loss/Value Adjust's	52,984	32,535	20,449	1,775	4,097
	Total Expenses	365,013	343,884	21,129	137,587	157,655
	Revenues over Expenses	10,525	28,218	(17,693)	36,098	29,687
	Beginning Net Assets	789,655	761,437	28,218	612,361	582,674
	Ending Net Assets	800,180	789,655	10,525	648,459	612,361

(1) Agency-wide totals include interfund amounts.

Change $	Combined State and Federal Appropriations Funds 2003	2002	Change $
141,655	124,245	147,275	(23,030)
(203,582)	27,524	27,280	244
(3,613)	1,258	2,949	(1,691)
(65,083)	153,771	178,151	(24,380)
(89,509)	—	—	—
(4,883)	—	—	—
(7,934)	1,772	701	1,071
(101,181)	2,050	857	1,193
30,087	—	—	—
6,450	—	—	—
—	151,721	177,294	(25,573)
36,098	151,721	177,294	(25,573)

Change $	Combined State and Federal Appropriations Funds 2003	2002	Change $
(12,177)	5,357	8,150	(2,793)
—	198,516	177,499	21,017
(5,416)	—	—	—
(13,657)	201,853	184,760	17,093
(13,315)	—	—	—
—	169,883	150,751	19,132
(6,137)	4,530	5,663	(1,133)
1,706	1,804	1,377	427
(2,322)	51,209	28,438	22,771
(20,068)	227,426	186,229	41,197
6,411	(25,573)	(1,469)	(24,104)
29,687	177,294	178,763	(1,469)
36,098	151,721	177,294	(25,573)

FINANCIAL HIGHLIGHTS

When reading the following financial highlights section referring to the General Reserve and bond funds, the reader is encouraged to review the Fund Financial Statements included as supplementary information in the 2003 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

In recent years, the type of assets of General Reserve and bond funds has been comparatively stable with loans receivable, investments, cash, cash equivalents, and interest receivable comprising the majority of assets. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets; they are limited to housing-related lending that supports a public mission objective. Loans receivable, net decreased 12% to $1,450 million at June 30, 2003 as a result of prepayments and repayments of loans exceeding new loan purchases and originations. There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 14% to $1,173 million at June 30, 2003 due to proceeds of loan prepayments on hand and higher levels of short-term debt outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 23% to $12.285 million at June 30, 2003 generally as a result of lower interest rates and declining loans outstanding.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports MHFA's mission. Bonds payable decreased 5% to $1,847 million at June 30, 2003 resulting from early redemptions made possible by accelerated loan prepayments, optional redemptions from Agency resources, scheduled redemptions and bond maturities, which in aggregate exceeded new debt issuance.

The companion category of interest payable decreased 10% to $43.464 million at June 30, 2003 as a result of reduced interest rates and fewer average bonds outstanding.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve decreased 8% to $86.350 million at June 30, 2003 as a result of loan payoffs and reductions of related escrow funds.

Accounts payable and other liabilities increased 3% to $13.768 million at June 30, 2003 primarily as a result of additional arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury. The MHFA obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

Interfund payable/receivable exists primarily as a result of pending administrative and program reimbursements among funds. Most administrative expenses are paid from General Reserve, with the bond funds and Appropriated Funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and bond funds are divided into two primary categories. Net assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize MHFA to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net assets Restricted by Covenant are subject to a

General Reserve and Bond Funds — Statement of Net Assets (continued)

covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to ensure that funds are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions. Net assets increased 6% to $648.459 million at June 30, 2003 as a result of consistent financial performance of the bond funds and prudent management.

Capital assets, net (equipment, fixtures, furniture, software costs) continue to be insignificant in relation to General Reserve and bond fund assets, representing less than 1% of total net assets. Capital assets are recorded in General Reserve.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds remained strong in fiscal year 2003, modestly higher than fiscal year 2002. Compared to the prior year, both total revenues and total expenses were down. Offsetting some of the unfavorable effects of interest revenue declines was the favorable effect of interest expense declines.

The largest revenue component, interest earned, was down throughout the year as yields on loans and investments declined to historically low levels. Combined interest revenues of General Reserve and bond funds from loans and investments declined 8% to $145.010 million compared to the prior year, consistent with generally declining interest rates. Loan interest was lower in fiscal year 2003 as mortgage loan refinancing caused higher levels of prepayments and, when combined with repayments, exceeded new loan purchases and originations which were also at lower interest rates. Investment interest was lower in fiscal year 2003 due to the general decline in interest rates compared to the prior year.

Administrative reimbursements to General Reserve from bond funds decreased 30% to $14.372 million compared to prior year as MHFA reduced the reimbursement charge during fiscal year 2003 because there were sufficient other revenues available in General Reserve.

Other fee income to General Reserve and bond funds increased 8% to $8.909 million compared to the prior year, primarily as a result of increased Federal Section 8 contract administration fees and increased federal Housing Assistance Payments administration fees as a result of a larger portfolio of low-income housing units.

Unrealized gains on investments increased significantly by 270% to $5.394 million compared to the prior year as interest rates declined to historic low levels during fiscal year 2003.

Interest expense of the bond funds decreased 12% to $101.023 million compared to the prior year as a result of reduced interest rates on recently issued bonds and fewer average bonds outstanding.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds declined significantly by 29% to $15.122 million compared to the prior year. The majority of the decrease is a result of the reduction of the administrative reimbursement charge by General Reserve to the bond funds. Note that $13.671 million of the total administrative fee reimbursement revenue of $14.372 million was interfund charges which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries, benefits, and other general operating expenses in General Reserve increased 9% to $19.667 million compared to the prior year, largely influenced by employee compensation, health insurance, and benefits increases.

General Reserve and Bond Funds — Revenues Over Expenses (continued)

Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased substantially to a credit of $.331 as recoveries on previous deferred loans exceeded reductions for new deferred loans.

Provision for loan loss expense in the bond funds was $2.106 million, consistent with management's assessment of increasing loan portfolio risk despite declining loan volume. Although non-performing assets are minimal, the allowance for loan losses as a proportion of loans outstanding at June 30, 2003 increased slightly from the prior year.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements.

Combined revenues over expenses for General Reserve and the bond funds increased 22% to $36.098 million compared to prior year. This level of net revenue over expenses remains consistent with performance of General Reserve and the bond funds in recent years. Revenues over expenses in General Reserve, which are in excess of the Housing Endowment Fund requirement, are transferred annually to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

The Housing Development fund was closed and residual net assets of $2.003 million were transferred to the Rental Housing fund. Due to the current period recognition of certain deferred expenses resulting from bond refunding transactions, the Housing Development fund shows expenses in excess of revenues in its final financial statement.

Total combined net assets of General Reserve and bond funds have increased 6% to $648.459 million as a result of revenues over expenses for fiscal year 2003. The net assets of some bond funds have increased while net assets of other bond funds have decreased, as a result of net revenues or net expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of public funds by the State of Minnesota and funds made available to MHFA by the federal government for housing related policy purposes. The public policy of housing preservation and development is a long-term commitment that commonly requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the Appropriated Funds and for the balance of net assets-restricted by law.

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2003 combined balance decreased 16% to $124.245 million as a result of higher levels of disbursements in the current year.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2003 State Appropriated Fund loans receivable increased 1% to $27.524 million reflecting higher volume of state loan program activity.

Interest receivable on investments of Appropriated Funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on Appropriated Funds at June 30, 2003 decreased 57% to $1.258 million as a result of declining investment yields and lower average investment balances.

Accounts payable and other liabilities represent amounts payable for HUD Section 236 interest reduction payments, Section 8 FA/FAF savings and accrued expenses for federal and state housing programs. The balance payable at June 30, 2003 was $1.603 million.

For administrative convenience, certain State Appropriated Fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing

State and Federal Appropriated Funds — Statement of Net Assets (continued)

activities. Interfund payable occurs in the Federal Appropriated Fund as a result of overhead expense and indirect cost recoveries due to MHFA. At June 30, 2003 the combined net interfund receivable was $1.325 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program, and the interest income earned on those unexpended funds. At June 30, 2003 the balance of funds held for the federal government was $1.772 million.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of MHFA. The combined net assets of the Appropriated Funds declined to $151.721 million as of June 30, 2003 compared to the prior period, reflecting relatively stable new appropriations received and increased appropriations disbursed during fiscal year 2003.

State and Federal Appropriated Funds — Revenues Over Expenses

State and federal appropriated funds are recorded as revenue in the period in which such appropriations are earned. Funds are spent for eligible program activities as defined by the various agreements between MHFA and the State of Minnesota or agencies of the federal government. Unexpended appropriations proceeds are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from $177.499 million at June 30, 2002 to $198.516 at June 30, 2003. Federal appropriations increased while state appropriations were relatively stable.

Interest income from investments was down throughout the year as interest rates in general continued their decline to historically low levels. Investment assets were also down during the year contributing to the combined interest income decline of 34% to $5.315 million at June 30, 2003.

Loan interest income from State Appropriations loan assets continues to be minimal as relatively few loans are interest bearing.

Unrealized losses on investments increased significantly by 127% to $2.020 million compared to the prior year. Maturities in the investment portfolio resulted in reductions of previously unrealized gains. The Agency further recorded unrealized losses on the investment securities purchased in fiscal 2003 due to declines in market value after the purchase.

Administrative reimbursements of expenses to General Reserve decreased 20% to $4.497 million compared to the prior year, primarily as a result of the non-recurring previous year additional administrative expense reimbursements allowed from pooling investment income from state appropriated programs.

Combined appropriations disbursed increased 13% to $169.883 million compared to prior year, reflecting continued efforts to support housing policy objectives.

Increased expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in greater reductions in carrying value of certain loans. Net reductions of carrying value increased 80% to $51.209 million compared to prior year, as a result of making more fully reserved deferred loans for low-and moderate-income housing.

State and Federal Appropriated Funds — Revenues Over Expenses (continued)

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense increased 31% to $1.804 million at June 30, 2003.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $25.573 at June 30, 2003, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated Funds' net assets will be expended for housing.

Significant Long-term Debt Activity

MHFA is a significant debt issuer, having outstanding at June 30, 2003 long-term debt totaling $1,457 million and short-term debt totaling $390 million, net of deferred finance and issuance costs. MHFA bond funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2003, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also generally require funding of debt service reserve and insurance reserve accounts. At June 30, 2003, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by MHFA is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects. MHFA's ability to issue tax-exempt debt is limited by MHFA's share of the state's allocation of the private activity volume cap, which is set in Minnesota law. MHFA's ability to issue tax-exempt debt is also limited by the federal rule (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans. When economic conditions favor it, MHFA issues limited amounts of taxable debt in order to supplement its tax-exempt authority and for lending under programs where federal restrictions are inconsistent with the program requirements. Board policy governs the process MHFA follows to issue debt and state statute limits MHFA's outstanding debt to $3.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm general obligation ratings for MHFA of AA+ and Aa1 respectively. MHFA's bond ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. In addition to ongoing reporting to and communications with the bond rating services, periodically MHFA prepares a comprehensive study of the creditworthiness and financial strength of its funds (excluding the appropriated funds). Information obtained from the analysis is presented to the bond rating services and is used by MHFA staff to make decisions about management of assets and debt.

MHFA continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and preserving the maximum amount of bonding authority.

During the year, MHFA completed the issuance/remarketing of 16 series of bonds aggregating to $447 million. This is compared to the combined issuance and remarketing of 14 series totaling $515 million the previous year. In recent years, MHFA has retired high rate debt when it becomes optionally redeemable and resources were available. Bonds are issued as capital is needed for program purposes, as opportunities for economic refundings occur, and for preservation of bonding authority.

A total of $538 million in principal payments were made during the year. Of this amount, $346 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions

The 2003 Minnesota Legislature adopted a FY 2004 — 2005 biennial budget that appropriates less money to MHFA than the previous biennium's base appropriations as part of an effort to balance the budget of the State of Minnesota for the current biennium. The $9.3 million reduction represents 12% of the total base appropriation to MHFA. Legislative appropriations are used for certain state-funded programs, and are not available to pay for MHFA operations or debt service. Unfavorable changes in state and federal legislation, statutes, administration, funding objectives, housing policy, and fiscal policy represent an ever-present risk to MHFA's attainment of mission and financial objectives.

Additional Information

Questions and inquiries may be directed to either Mr. Mike LeVasseur or Ms. Sharon Spahn Bjostad at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-296-7608).

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2003 (with comparative totals for June 30, 2002)

		2003 Agency-wide Total	2002 Agency-wide Total
Assets	Cash and cash equivalents	$ 857,905	$ 765,873
	Investment securities	439,645	413,052
	Loans receivable, net	1,478,002	1,681,340
	Interest receivable on loans	8,032	9,352
	Interest receivable on investments	5,511	9,495
	Mortgage insurance claims receivable	584	497
	Real estate owned	899	497
	Capital assets, net	733	1,172
	Other assets	2,499	1,995
	Total assets	$2,793,810	$2,883,273
Liabilities	Bonds payable, net	$1,846,679	$1,936,188
	Interest payable	43,464	48,347
	Accounts payable and other liabilities	15,371	14,104
	Funds held for others	88,116	94,979
	Total liabilities	1,993,630	2,093,618
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	382,253	352,166
	Restricted by covenant	265,473	259,023
	Restricted by law	151,721	177,294
	Invested in capital assets	733	1,172
	Total net assets	800,180	789,655
	Total liabilities and net assets	$2,793,810	$2,883,273

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2003 (with comparative totals for the twelve months ended June 30, 2002)

		2003 Agency-wide Total	2002 Agency-wide Total
Revenues	Interest earned on loans	$109,109	$117,547
	Interest earned on investments	41,258	47,790
	Appropriations received	198,516	177,499
	Administrative reimbursement	701	684
	Fees earned	8,909	8,209
	Unrealized gains on securities	3,374	569
	Total revenues	361,867	352,298
Expenses	Interest	101,023	114,338
	Loan administration and trustee fees	5,981	7,118
	Salaries and benefits	13,124	11,985
	Other general operating	8,347	7,353
	Appropriations disbursed	169,883	150,751
	Reduction in carrying value of certain low interest rate deferred loans	50,878	32,853
	Provision for loan losses	2,106	(318)
	Total expenses	351,342	324,080
	Revenues over expenses	10,525	28,218
	Change in net assets	10,525	28,218
Net Assets	Total net assets, beginning of year	789,655	761,437
	Total net assets, end of year	$800,180	$789,655

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2003 (with comparative totals for June 30, 2002)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 2,148	$ —	$ 59,695	$408,827	$ 374,664
	Investment securities	118,725	—	43,789	136,735	28,722
	Loans receivable, net	—	—	234,717	417,472	798,289
	Interest receivable on loans	—	—	1,767	2,020	4,245
	Interest receivable on investments	1,074	—	1,282	1,405	492
	Mortgage insurance claims receivable	—	—	—	116	468
	Real estate owned	—	—	—	15	884
	Capital assets, net	733	—	—	—	—
	Other assets	1,135	—	110	504	6
	Total assets	$123,815	$ —	$341,360	$967,094	$1,207,770
Liabilities	Bonds payable, net	$ —	$ —	$246,701	$522,073	$1,077,905
	Interest payable	—	—	5,529	7,711	30,224
	Accounts payable and other liabilities	2,458	—	293	1,352	9,665
	Interfund payable (receivable)	2,498	—	21,055	(23,728)	1,500
	Funds held for others	86,350	—	—	(6)	—
	Total liabilities	91,306	—	273,578	507,402	1,119,294
	Commitments and contingencies					
Net Assets	Restricted by bond resolution	—	—	67,782	225,995	88,476
	Restricted by covenant	31,776	—	—	233,697	—
	Restricted by law	—	—	—	—	—
	Invested in capital assets	733	—	—	—	—
	Total net assets	32,509	—	67,782	459,692	88,476
	Total liabilities and net assets	$123,815	$ —	$341,360	$967,094	$1,207,770

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2003 Total	2002 Total
$ 8,972	$ 3,599	$ 857,905	$ 765,873
103,441	8,233	439,645	413,052
27,524	—	1,478,002	1,681,340
—	—	8,032	9,352
1,125	133	5,511	9,495
—	—	584	497
—	—	899	497
—	—	733	1,172
—	744	2,499	1,995
$141,062	$12,709	$2,793,810	$2,883,273
$ —	$ —	$1,846,679	$1,936,188
—	—	43,464	48,347
493	1,110	15,371	14,104
(1,517)	192	—	—
—	1,772	88,116	94,979
(1,024)	3,074	1,993,630	2,093,618
—	—	382,253	352,166
—	—	265,473	259,023
142,086	9,635	151,721	177,294
—	—	733	1,172
142,086	9,635	800,180	789,655
$141,062	$12,709	$2,793,810	$2,883,273

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2003 (with comparative totals for the year ended June 30, 2002)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$ 599	$18,079	$ 25,504	$64,885
	Interest earned on investments	1,690	224	3,398	14,743	15,888
	Appropriations received	—	—	—	—	—
	Administrative reimbursement	14,372	—	—	—	—
	Fees earned	7,362	—	1,092	455	—
	Unrealized gains (losses) on securities	424	(32)	1,140	1,986	1,876
	Total revenues	23,848	791	23,709	42,688	82,649
Expenses	Interest	—	1,383	16,247	15,652	67,741
	Loan administration and trustee fees	—	4	270	2,322	3,352
	Administrative reimbursement	—	54	1,393	2,453	5,274
	Salaries and benefits	13,124	—	—	—	—
	Other general operating	5,915	—	—	628	—
	Appropriations disbursed	—	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	—	(331)	—
	Provision for loan losses	—	(7)	(1,446)	3,366	193
	Total expenses	19,039	1,434	16,464	24,090	76,560
	Revenues over (under) expenses	4,809	(643)	7,245	18,598	6,089
Other changes	Non-operating transfer of assets between funds	(8,856)	(2,003)	2,141	13,054	(4,336)
	Change in net assets	(4,047)	(2,646)	9,386	31,652	1,753
Net Assets	Total net assets, beginning of year	36,556	2,646	58,396	428,040	86,723
	Total net assets, end of year	$32,509	$ —	$67,782	$459,692	$88,476

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2003 Total	2002 Total
$ 42	$ —	$109,109	$117,547
4,933	382	41,258	47,790
52,911	145,605	198,516	177,499
—	—	14,372	20,488
—	—	8,909	8,209
(1,946)	(74)	3,374	569
55,940	145,913	375,538	372,102
—	—	101,023	114,338
33	—	5,981	7,118
4,497	—	13,671	19,804
—	—	13,124	11,985
1,804	—	8,347	7,353
23,998	145,885	169,883	150,751
51,209	—	50,878	32,853
—	—	2,106	(318)
81,541	145,885	365,013	343,884
(25,601)	28	10,525	28,218
—	—	—	—
(25,601)	28	10,525	28,218
167,687	9,607	789,655	761,437
$142,086	$ 9,635	$800,180	$789,655

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2003 (with comparative totals for the year ended June 30, 2002)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 461	$ 36,498	$ 106,214	$ 295,902
	Investment in loans	—	—	(1,273)	(211,620)	(26,853)
	Interest received on loans	—	790	17,895	26,059	64,026
	Other operating	—	—	—	(628)	—
	Fees received	7,168	—	1,092	471	—
	Salaries, benefits and vendor payments	(18,494)	(6)	(272)	(2,491)	(3,386)
	Appropriations received	—	—	—	—	—
	Appropriations disbursed	—	—	—	—	—
	Administrative reimbursement from funds	14,660	(54)	(1,441)	(2,384)	(5,287)
	Interest transferred to funds held for others	(3,468)	—	—	—	—
	Deposits into funds held for others	34,426	—	—	25	—
	Disbursements made from funds held for others	(42,349)	—	—	(36)	—
	Interfund transfers and other assets	(400)	—	(94)	2,133	(1,705)
	Net cash provided (used) by operating activities	(8,457)	1,191	52,405	(82,257)	322,697
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	—	40,400	406,423	—
	Principal repayment on bonds	—	(32,410)	(29,725)	(257,865)	(218,270)
	Interest paid on bonds and notes	—	(1,721)	(13,930)	(12,083)	(71,304)
	Financing costs paid related to bonds issued	—	—	(362)	(1,704)	—
	Interest paid/received between funds	—	—	(1,553)	1,553	—
	Principal paid/received between funds	—	—	(115)	115	—
	Premium paid on redemption of bonds	—	(316)	—	—	(787)
	Agency contribution to program funds	—	(2,003)	2,141	4,198	(4,336)
	Transfer of cash between funds	(7,866)	—	—	7,866	—
	Net cash provided (used) by noncapital financing activities	(7,866)	(36,450)	(3,144)	148,503	(294,697)
Cash flows from investing activities	Investment in real estate owned	—	—	—	(30)	(399)
	Interest received on investments	4,814	156	3,798	13,807	16,804
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	—	346	3,688
	Proceeds from maturity, sale or transfer of investment securities	52,084	8,318	45,400	168,036	6,904
	Purchase of investment securities	(65,518)	—	(51,473)	(196,985)	(15,959)
	Purchase of loans between funds	—	25,990	(25,990)	—	—
	Net cash provided (used) by investing activities	(8,620)	34,464	(28,265)	(14,826)	11,038
	Net increase (decrease) in cash and cash equivalents	(24,943)	(795)	20,996	51,420	39,038
Cash and cash equivalents	Beginning of year	27,091	795	38,699	357,407	335,626
	End of year	$ 2,148	$ —	$ 59,695	$ 408,827	$ 374,664

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2003 Total	2002 Total
$ 13,146	$ —	$ 452,221	$ 324,538
(64,106)	—	(303,852)	(324,965)
42	—	108,812	116,290
(1,311)	—	(1,939)	(1,377)
—	—	8,731	7,852
(526)	—	(25,175)	(23,697)
52,911	145,506	198,417	177,364
(23,998)	(145,782)	(169,780)	(150,628)
(4,529)	—	965	684
—	(13)	(3,481)	(4,243)
—	1,532	35,983	26,603
—	(461)	(42,846)	(35,336)
(440)	—	(506)	(79)
(28,811)	782	257,550	113,006
—	—	446,823	515,485
—	—	(538,270)	(545,965)
—	—	(99,038)	(114,340)
—	—	(2,066)	(2,812)
—	—	—	—
—	—	—	—
—	—	(1,103)	(230)
—	—	—	—
—	—	—	—
—	—	(193,654)	(147,862)
—	—	(429)	(581)
6,346	418	46,143	54,041
—	—	4,034	5,535
120,028	7,089	407,859	182,439
(93,048)	(6,488)	(429,471)	(295,990)
—	—	—	—
33,326	1,019	28,136	(54,556)
4,515	1,801	92,032	(89,412)
4,457	1,798	765,873	855,285
$ 8,972	$ 3,599	$ 857,905	$ 765,873

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2003 (with comparative totals for the year ended June 30, 2002)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

	General Reserve	Bond Funds: Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$ 4,809	$ (643)	$ 7,245	$ 18,598	$ 6,089
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:					
Amortization of premiums (discounts) and fees on loans	—	—	(93)	816	(2,092)
Depreciation	539	—	—	—	—
Loss on disposal of fixed assets	571	—	—	—	—
Realized losses (gains) on sale of securities, net	(610)	(122)	87	(443)	(99)
Unrealized losses (gains) on securities, net	(424)	32	(1,140)	(1,986)	(1,876)
Provision for loan losses	—	(7)	(1,446)	3,366	193
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	—	(331)	—
Capitalized interest on loans and real estate owned	—	—	(57)	(25)	(266)
Interest earned on investments	(1,080)	(102)	(3,604)	(14,855)	(16,560)
Interest expense on bonds and notes	—	1,383	16,247	15,652	67,741
Changes in assets and liabilities:					
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	461	35,225	(105,406)	269,049
Decrease (increase) in interest receivable on loans	—	191	(34)	(236)	1,399
Arbitrage rebate liability	—	—	119	555	871
Decrease in deferred revenue	—	—	—	—	—
Interest transferred to funds held for others	(3,468)	—	—	—	—
(Increase) in accounts payable	(565)	(2)	(2)	(153)	(31)
Increase (decrease) in interfund payable, affecting operating activities only	288	—	(143)	2,311	(1,718)
Increase (decrease) in funds held for others	(7,923)	—	—	(11)	—
Other	(594)	—	1	(109)	(3)
Total	(13,266)	1,834	45,160	(100,855)	316,608
Net cash provided (used) by operating activities	$ (8,457)	$1,191	$52,405	$ (82,257)	$322,697

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2003 Total	2002 Total
$(25,601)	$ 28	$ 10,525	$ 28,218
—	—	(1,369)	(581)
—	—	539	562
—	—	571	—
—	(19)	(1,206)	(187)
1,946	74	(3,374)	(569)
—	—	2,106	(318)
51,209	—	50,878	32,853
—	—	(348)	(341)
(4,933)	(363)	(41,497)	(52,746)
—	—	101,023	114,338
(50,960)	—	148,369	(427)
—	—	1,320	(722)
—	—	1,545	5,238
—	—	—	(212)
—	(13)	(3,481)	(4,243)
—	367	(386)	1,432
(474)	(264)	—	(191)
—	1,071	(6,863)	(8,733)
2	(99)	(802)	(365)
(3,210)	754	247,025	84,788
$(28,811)	$ 782	$257,550	$113,006

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2003

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or MHFA) was created in 1971 by an Act of the Minnesota legislature. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low-and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. The Agency also receives funds from the federal government or through other entities for similar purposes.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. Amounts so issued shall not be deemed to constitute a debt of the state of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, which are included in this report, all of which conform with the authorizing legislation and bond resolutions:

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Housing Development; Rental Housing; Residential Housing Finance; and Single Family.

Housing Development and Rental Housing

Bond proceeds for the multifamily housing programs were maintained under two separate bond resolutions: Housing Development and Rental Housing. Loans are secured by first mortgages on real property.

During the fiscal year ended June 30, 2003, Housing Development bonds were refunded and the residual net assets transferred to Rental Housing. The Housing Development fund was then closed.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance Bonds resolution, the bond resolution restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the Alternative Loan Fund, which is restricted by a covenant with bondholders.

Bonds

The series bonds outstanding were issued to fund purchases of single family first mortgage loans and home improvement subordinated loans. Assets of the series bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is a principal source of funding for home improvement loans. Home improvement loans in excess of $5,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

This fund is a source of funding for entry cost housing assistance programs for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and to warehouse loans.

Nature of Business and Fund Structure (continued)

Multifamily Endowment Fund

This fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, incentive loans and a program for leveraging investments in neighborhoods and communities.

Alternative Loan Fund

An Alternative Loan Fund has been established in Residential Housing Finance to deposit funds in either the Housing Investment Fund or Housing Affordability Fund, which were otherwise available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds, or any other specific debt obligation of the Agency, and is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is currently invested in investment grade loans, as defined by the Agency, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade housing loans, as defined by the Agency, for future Agency administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans including zero-percent deferred loans, and other below market-rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

Bonds issued for homeownership programs have been issued under Single Family and, since 2001, under Residential Housing Finance. The Agency generally expects to issue future bonds for homeownership programs under Residential Housing Finance. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family. Loans are secured by first mortgages on real property.

Each respective bond resolution described above prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

State Appropriated

The State Appropriated fund was established to account for funds received from the state legislature which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs. The net assets of the State Appropriated fund are not available to support the bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not available to support the bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies.

Basis of Accounting

The Agency's financial statements have been prepared on the basis of the proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services.

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Agency has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

New Accounting Pronouncements

Applicable portions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* were implemented by the Agency for the year ended June 30, 2002. As required by that GASB statement, the remaining portions were implemented for the year ended June 30, 2003. The most significant effects on the Agency's annual financial statements for the year ended June 30, 2003 were additional note disclosures regarding the accounts payable and other liabilities balance, the accounts receivable balance aggregated in other assets and interfund balances and transfers.

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14,* which is effective for the year ending June 30, 2004. Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, Statement No. 39 requires reporting, as a component, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The adoption of Statement No. 39 is not expected to have a material impact on the Agency's financial statements.

On March 27, 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures,* which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase,* to require disclosure of information covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies.
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or specification identification of the securities.
- Interest rate sensitivity for investments highly sensitive to changes in interest rates (e.g., inverse floaters, enhanced variable-rate investments, and certain asset-backed securities).
- Foreign exchange exposures that would indicate the foreign investment's denomination.

GASB Statement No. 40 is effective for the fiscal year ending June 30, 2005. The adoption of GASB Statement No. 40 will not affect the Agency's net assets.

On June 25, 2003, the GASB issued Technical Bulletin 2003-1, Disclosure *Retirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets,* which requires state and local

Summary of Significant Accounting Policies (continued)

governments to disclose the objectives of derivatives, such as interest rate swaps, as well as their terms, fair values, and certain risks. This Technical Bulletin is effective for the fiscal year ending June 30, 2004, and will not affect the Agency's net assets.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily US treasuries and agencies, which have 90 or less days remaining to maturity at the time of purchase.

Investment Securities

The Agency carries investment securities at fair market value and records unrealized gains and losses on investment securities as a result of changes in market valuations.

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums or discounts and fees.

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks: adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, private mortgage insurance and pool or self-insurance.

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2003.

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Beginning with the year ended June 30, 2003, prepayments of mortgages are taken into account in the calculation of the amortization. This change reduced Single Family unamortized net discounts and, consequently, increased the balance of loans receivable, net by $1.500 million for the year. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, or until they become 'real estate owned' for all other loans.

Mortgage Insurance Claims Receivable

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category.

Real Estate Owned

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan, or estimated fair market value less estimated selling costs. These properties may be RD guaranteed, uninsured or have private mortgage insurance.

Summary of Significant Accounting Policies (continued)

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized deferred financing costs. Deferred financing costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Housing Development and Rental Housing funds, deferred financing costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received and pending transfer to their respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are funds pending disbursement to HUD, such as McKinney Act savings and Section 8 payments plus monitoring fees collected and pending disbursement in connection with the Class 4(d) Real Estate Tax Assessment Legislation. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those assets restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

Restricted By Covenant Net Assets represents those assets in General Reserve and those assets that were otherwise available to be transferred to General Reserve. Under the Agency's bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board is responsible for establishing the investment guidelines for these funds.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as restricted by law.

Invested in Capital Assets

This represents the balance of capital assets, net of depreciation. No related debt exists.

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2002 are for comparative purposes only.

Summary of Significant Accounting Policies (continued)

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs to the extent of interest earnings on the appropriations.

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate applied to direct salary disbursements. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $701,000 are reflected as administrative reimbursement revenues in the Agency-wide statement of activities.

Administrative reimbursements in the amount of $13,671,000 between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned

Fees earned consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the Low Income Housing Tax Credits program and application fees for administering the Class 4(d) Real Estate Tax Assessment Legislation. Fee income is recorded as it is earned.

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund loans, Endowment Fund loans and State Appropriated loans which are originated at interest rates ranging from 0%-5%, and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Assets to describe various transfers between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of assets in excess of the bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2003 were $.20 million and $3.73 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies (continued)

Related Party Transactions

The Alternative Loan Fund in Residential Housing Finance continues to reflect outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. The advances were made in order to take advantage of economically favorable conditions for redeeming the bonds. The advances continue to be repaid according to the original debt repayment schedule. The advances are recorded in Interfund Payable (Receivable).

Income Taxes

The Agency, as a component unit of the state of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent valuation specialist on an ongoing basis. This liability does not reflect any unrealized appreciation or depreciation as a result of recording investment securities at fair market value.

Cash, Cash Equivalents and Investment Securities

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2003 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Repurchase Agreements	Investment Agreements	US Agencies	Combined Totals
General Reserve	$ 1,355	$ 793	$ —	$ —	$ 2,148
Housing Development	—	—	—	—	—
Rental Housing	370	6,792	52,533	—	59,695
Residential Housing Finance	4,540	45,857	358,430	—	408,827
Single Family	12,373	19,283	343,008	—	374,664
State Appropriated	—	5,180	—	3,792	8,972
Federal Appropriated	1,780	1,819	—	—	3,599
Agency-wide Totals	$20,418	$79,724	$753,971	$3,792	$857,905

Deposits may consist of commercial paper for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent. Cash awaiting investment consists of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities. Generally, repurchase agreements mature in one week or less. At June 30, 2003, the collateral for the repurchase agreements in General Reserve, State Appropriated and Federal Appropriated is held by a third-party agent. The collateral for the repurchase agreements in the remainder of the funds is held by the trustee for the Agency.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2003, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA–" or higher and a Moody's long-term credit rating of "Aa3" or higher. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.

Cash, Cash Equivalents and Investment Securities (continued)

US agency securities, classified as cash equivalents in State Appropriated, were purchased with remaining maturities of 90 days or less and are held by the Agency's agent in the name of the state of Minnesota.

Investments consist of those permitted by the various bond resolutions, state law and Board policy. Investment securities are recorded at fair market value and are composed of the following at June 30, 2003 (in thousands):

Investment Securities

	Fair Market Value		
Funds	**US Treasuries, US Agencies and Municipals, at Amortized Cost**	**Unrealized Appreciation in Fair Market Value**	**Estimated Market Value**
General Reserve	$116,587	$ 2,138	$118,725
Housing Development	—	—	—
Rental Housing	42,088	1,701	43,789
Residential Housing Finance	132,915	3,820	136,735
Single Family	25,361	3,361	28,722
State Appropriated	103,181	260	103,441
Federal Appropriated	8,122	111	8,233
Agency-wide Totals	$428,254	$11,391	$439,645

US treasury, US agency and municipal securities in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the state of Minnesota. US treasury, US agency and municipal securities in the remainder of the funds are held by the Agency's trustee in the Agency's name.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2003 are as follows (in thousands):

Funds	Amount
Housing Development	$ —
Rental Housing	24,801
Residential Housing Finance	5,784
Single Family	41,158
Totals	$71,743

Loans Receivable, Net

Loans receivable, net at June 30, 2003 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Housing Development	—	—	—	—
Rental Housing	243,425	(7,756)	(952)	234,717
Residential Housing Finance	429,472	(7,106)	(4,894)	417,472
Single Family	808,992	(215)	(10,488)	798,289
State Appropriated	28,519	(995)	—	27,524
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,510,408	$(16,072)	$(16,334)	$1,478,002

Loans Receivable, Net (continued)

Substantially all loans in the table above are secured by first or second mortgages on the real property. Mortgage loans in the Single Family fund are largely insured by the FHA, VA, or RD. Insurance minimizes, but does not completely eliminate, loan losses. Mortgage loans in the Single Family fund are also protected by an insurance reserve fund.

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0%-5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year ended June 30, 2003, the amount of these loans originated was $1.410 million in the Housing Affordability Fund, $2.908 million in the Homeownership Endowment Fund, $1.509 million in the Multifamily Endowment Fund and $59.007 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2003 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$ 92,345
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	22,114
Other homeownership loans	1,558
Multifamily Endowment Fund:	
Multifamily, generally subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	154,121
Alternative Loan Fund, Housing Investment Fund:	
Homeownership, first mortgage loans	14,255
Multifamily, first mortgage loans	11,445
Alternative Loan Fund, Housing Affordability Fund:	
Multifamily, first mortgage loans	102,034
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	19,600
Residential Housing Finance Totals	$417,472

By statute, the Agency is limited to financing real estate located within the state of Minnesota. Collectibility depends on local economic conditions.

Other Assets

Other assets, including receivables, at June 30, 2003 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,132	$ 3	$1,135
Housing Development	—	—	—
Rental Housing	—	110	110
Residential Housing Finance	107	397	504
Single Family	—	6	6
State Appropriated	—	—	—
Federal Appropriated	664	80	744
Agency-wide Totals	$1,903	$596	$2,499

Bonds Payable, Net

Bonds payable, net at June 30, 2003 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance Costs	Bonds Payable, Net
Housing Development	$ —	$ —	$ —
Rental Housing	251,940	(5,239)	246,701
Residential Housing Finance	524,013	(1,940)	522,073
Single Family	1,086,120	(8,215)	1,077,905
Totals	$1,862,073	$(15,394)	$1,846,679

Outstanding principal of bonds payable at June 30, 2003 are as follows (in thousands):

Series	Interest Rate	Maturity Due	Original Amount	Outstanding Amount
Rental Housing Bonds				
1993 Series D	5.30% to 6.00%	2003-2022	$ 4,830	$ 3,975
1993 Series E	5.30% to 6.10%	2003-2022	25,960	16,015
1995 Series A	5.25% to 6.00%	2004-2019	1,840	1,470
1995 Series C-2	4.90% to 5.95%	2003-2015	38,210	19,265
1995 Series D	5.05% to 6.00%	2003-2022	234,590	126,840
1996 Series A	5.00% to 6.10%	2003-2027	2,820	2,620
1997 Series A	4.75% to 5.875%	2003-2028	4,750	4,450
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,710
1998 Series C	4.20% to 5.20%	2003-2029	2,865	2,720
1999 Series A	4.00% to 5.10%	2003-2024	4,275	3,975
1999 Series B	4.75% to 6.15%	2003-2025	3,160	2,890
2000 Series A	5.35% to 6.15%	2008-2030	9,290	8,430
2000 Series B	5.90%	2031	5,150	5,075
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,800
2002 Series A	1.55% to 4.05%	2003-2014	27,630	27,430
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,770
			392,625	251,940
Residential Housing Finance Bonds				
1995 Series A	4.95% to 5.85%	2003-2017	53,645	34,540
2001 Series A	1.32%	2003	30,055	30,055
2001 Series B	1.35%	2003	62,600	62,600
2001 Series C	1.35%	2003	25,230	25,230
2001 Series D	1.35%	2003	39,840	39,840
2002 Series A	4.75% to 5.30%	2012-2019	14,035	7,175
2002 Series B	3.35% to 5.65%	2004-2033	59,650	33,890
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	2.40% to 5.35%	2004-2033	25,760	25,760
2002 Series C	3.00%	2004	24,285	24,285
2002 Series D	3.20%	2004	17,700	17,700
2002 Series E	4.30% to 5.00%	2013-2020	12,805	12,805
2002 Series F	2.35% to 5.40%	2004-2032	52,195	52,195
2002 Series G	2.15%	2004	37,470	37,470
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2002 Series I	1.38%	2003	15,805	15,805
2002 Series J	1.40%	2003	41,030	41,030

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity Due	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
2002 Series K	1.35%	2003	$ 28,210	$ 28,210
2003 Series C	1.475%	2003	8,563	8,563
			575,738	524,013
Single Family Mortgage Bonds				
1992 Series B-2	6.15%	2026	14,250	7,710
1992 Series C-2	6.15%	2023	12,185	6,675
1992 Series D-2	5.25% to 5.95%	2003-2017	26,740	10,985
1992 Series H	6.50%	2026	23,410	18,390
1992 Series I	5.75% to 6.25%	2003-2015	16,365	9,485
1993 Series B	5.80%	2025	23,590	19,615
1993 Series C	5.60%	2017	27,860	525
1993 Series D	6.40%	2027	17,685	9,050
1993 Series F	6.25%	2020	9,500	4,200
1994 Series A	4.65% to 5.00%	2003-2007	15,105	3,250
1994 Series B	5.65%	2022	16,990	5,735
1994 Series C	5.65%	2025	9,000	7,615
1994 Series D	4.70% to 5.00%	2003-2005	91,660	15,470
1994 Series E	4.60% to 5.90%	2003-2025	31,820	14,450
1994 Series F	5.35% to 6.30%	2003-2025	42,645	14,535
1994 Series G	6.45%	2020	19,655	8,530
1994 Series H	5.85% to 6.70%	2004-2018	18,465	6,310
1994 Series I	5.85% to 6.90%	2003-2022	14,635	3,155
1994 Series J	6.95%	2026	13,900	4,685
1994 Series K	5.50% to 6.40%	2003-2015	23,970	6,445
1994 Series L	6.70%	2020	15,680	5,935
1994 Series M	6.70%	2026	22,660	8,485
1994 Series N	6.45%	2025	18,770	5,130
1994 Series O	6.45%	2012	11,580	4,655
1994 Series P	6.45%	2021	21,150	8,515
1994 Series Q	6.70%	2017	12,600	1,215
1994 Series R	6.10% to 6.50%	2003-2007	8,120	1,245
1994 Series S	6.92%	2026	23,610	9,360
1994 Series T	5.20% to 6.125%	2003-2017	16,420	6,190
1995 Series B	6.40% to 6.55%	2017-2027	35,815	19,490
1995 Series D	6.40% to 6.45%	2015-2025	40,160	21,595
1995 Series G	7.15% to 8.05%	2003-2012	8,310	2,985
1995 Series H	6.40%	2027	19,240	9,915
1995 Series I	6.35%	2017-2018	7,450	3,835
1995 Series J	4.90% to 6.10%	2003-2019	16,065	7,115
1995 Series K	6.20%	2020	1,495	795
1995 Series L	6.25%	2027	12,950	6,900
1995 Series M	4.80% to 5.875%	2003-2017	32,025	17,450
1996 Series A	6.375%	2028	34,480	11,950
1996 Series B	6.35%	2018-2019	7,990	6,115
1996 Series C	5.20% to 6.10%	2003-2015	12,345	7,020
1996 Series D	5.15% to 6.00%	2003-2017	23,580	9,120
1996 Series E	6.25%	2022-2023	14,495	7,065
1996 Series F	6.30%	2026-2028	18,275	8,935

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity Due	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1996 Series G	6.25%	2026-2028	$ 41,810	$ 18,755
1996 Series H	6.00%	2021	13,865	6,215
1996 Series I	6.95% to 8.00%	2003-2017	14,325	5,480
1996 Series J	5.60%	2021	915	435
1996 Series K	4.30% to 5.40%	2003-2017	9,280	6,105
1997 Series A	4.95% to 5.95%	2003-2017	22,630	13,960
1997 Series B	6.20%	2021	9,180	6,745
1997 Series C	6.25%	2029	27,740	7,780
1997 Series D	5.80% to 5.85%	2019-2021	15,885	11,845
1997 Series E	5.05% to 5.90%	2024-2029	23,495	10,120
1997 Series F	6.93% to 7.43%	2003-2012	11,620	2,570
1997 Series G	5.10% to 6.00%	2003-2018	40,260	32,345
1997 Series H	6.15%	2019	11,455	5,280
1997 Series I	5.50%	2017	9,730	8,875
1997 Series K	5.75%	2026-2029	22,700	20,695
1997 Series L	6.50% to 6.80%	2003-2007	9,550	3,410
1998 Series A	4.65% to 5.20%	2008-2017	5,710	4,330
1998 Series B	4.40% to 5.50%	2003-2029	17,030	10,500
1998 Series C	4.30% to 5.25%	2003-2017	21,775	16,875
1998 Series D	4.70%	2020	7,965	1,005
1998 Series E	5.40%	2025-2030	30,500	26,785
1998 Series F-1	4.35% to 5.45%	2003-2017	10,650	7,880
1998 Series G-1	5.60%	2022	6,150	5,040
1998 Series H-1	5.65%	2031	14,885	12,215
1998 Series F-2	4.55% to 5.70%	2003-2017	11,385	9,615
1998 Series G-2	6.00%	2022	6,605	6,145
1998 Series H-2	6.05%	2031	15,965	14,865
1999 Series B	5.00% to 5.25%	2013-2020	18,865	17,180
1999 Series C	4.10% to 4.85%	2003-2024	21,960	13,040
1999 Series D	5.45%	2026-2031	23,975	21,880
1999 Series H	5.30% to 5.80%	2011-2021	16,350	15,000
1999 Series I	4.55% to 6.05%	2003-2031	34,700	26,435
1999 Series J	5.00%	2017	4,745	4,695
1999 Series K	2.85% to 5.35%	2003-2033	44,515	44,000
2000 Series A	5.25% to 5.85%	2009-2020	18,650	16,680
2000 Series B	5.05% to 5.55%	2003-2024	16,580	11,815
2000 Series C	6.10%	2030-2032	30,320	27,125
2000 Series F	Variable	2031	20,000	19,410
2000 Series G	4.25% to 5.40%	2008-2025	39,990	39,230
2000 Series H	3.60% to 5.50%	2003-2023	32,475	31,005
2000 Series I	4.75% to 5.80%	2003-2019	20,185	19,470
2000 Series J	5.40% to 5.90%	2023-2030	29,720	28,580
2001 Series A	5.35% to 5.45%	2017-2022	14,570	14,355
2001 Series B	3.90% to 5.675%	2003-2030	34,855	33,115
2001 Series E	3.50%	2003	59,405	59,405
			1,819,615	1,086,120
Combined Totals			$2,787,978	$1,862,073

Bonds Payable, Net (continued)

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service resulting primarily from loan prepayments.

All bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in detail within the applicable series resolution.

Annual debt service requirements to maturity for bonds as of June 30, 2003, excluding bonds called for early redemption prior to June 30, 2003, as listed below, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2004	$ 10,300	$ 13,369	$295,003	$ 14,689
2005	10,595	13,053	41,455	9,865
2006	11,265	12,550	4,090	9,247
2007	11,870	12,000	4,295	9,077
2008	12,510	11,403	9,515	8,792
2009-2013	73,875	45,965	41,425	38,871
2014-2018	62,415	26,308	32,670	28,465
2019-2023	35,030	10,805	27,820	21,440
2024-2028	11,665	4,945	31,325	14,546
2029-2033	6,200	2,235	34,550	5,527
2034-2038	6,215	2,101	1,865	51

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2004	$ 83,590	$ 59,154	$388,893	$ 87,212
2005	25,310	56,777	77,360	79,695
2006	26,580	55,484	41,935	77,281
2007	21,945	54,236	38,110	75,313
2008	21,225	53,075	43,250	73,270
2009-2013	129,045	246,779	244,345	331,615
2014-2018	190,540	202,007	285,625	256,780
2019-2023	224,705	140,822	287,555	173,067
2024-2028	251,630	69,023	294,620	88,514
2029-2033	109,820	12,277	150,570	20,039
2034-2038	1,730	46	9,810	2,198

The principal due for convertible option bonds (COBs) is reflected in subsequent fiscal year columns of this table based on the mandatory tender dates of those bonds. This presentation does not alter the expectation that these bonds will be remarketed long-term at or prior to their mandatory tender date. COBs are secured by investment contracts that are structured to provide liquidity at each debt service payment date in the amounts due to bondholders. Such investment contracts are included in cash and cash equivalents on the statement of net assets.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated for each calendar month. The rate is the sum of the London Interbank Offered Rate plus 0.30% per annum provided that the rate may not be more than 11.00% per annum. This series was placed with a single investor. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate as of June 30, 2003.

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The Agency believes that as of June 30, 2003, the assets of all funds and accounts in the bond funds equaled or exceeded the

Bonds Payable, Net (continued)

requirements as established by the respective bond resolutions. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements.

As of or after June 30, 2003, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2003 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$1,755	$ 703	$ 2,458
Rental Housing	275	—	18	293
Residential Housing Finance	643	—	709	1,352
Single Family	9,607	—	58	9,665
State Appropriated	—	—	493	493
Federal Appropriated	—	—	1,110	1,110
Agency-wide Totals	$10,525	$1,755	$3,091	$15,371

A portion of the arbitrage rebate payable will not be paid within one year. The amount not currently due in Rental Housing is $275, in Residential Housing Finance is $643 and in Single Family is $6,783, for a total of $7,701.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2003 consist of the following (in thousands):

	Due from							
Funds (Due to)	General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
General Reserve	$ —	$—	$ —	$ —	$ —	$166	$192	$ 358
Housing Development	—	—	—	—	—	—	—	—
Rental Housing	—	—	—	—	—	—	—	—
Residential Housing Finance	2,856	—	21,055	—	—	—	—	23,911
Single Family	—	—	—	—	—	—	—	—
State Appropriated	—	—	—	183	1,500	—	—	1,683
Federal Appropriated	—	—	—	—	—	—	—	—
Agency-wide Totals	$2,856	$—	$21,055	$183	$1,500	$166	$192	$25,952

The $21,055,000 due to Residential Housing Finance reflects advances made to Rental Housing in fiscal 1997 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Rental Housing. Repayment of the advances continues according to the original debt repayment schedule. The portion that will not be repaid within one year is $20,277,000.

All remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2003 consist of the following (in thousands):

	Transfer from							
Transfer to — Funds	General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
General Reserve-administrative reimbursement	$—	$54	$1,441	$2,384	$5,287	$4,529	$965	$14,660
Housing Development	—	—	—	—	—	—	—	—
Rental Housing	—	—	—	—	—	—	—	—
Residential Housing Finance	—	—	1,763	—	2,115	39	—	3,917
Single Family	—	—	—	7	—	482	—	489
State Appropriated	—	—	—	—	78	—	—	78
Federal Appropriated	—	—	473	—	—	—	—	473
Agency-wide Totals	$—	$54	$3,677	$2,391	$7,480	$5,050	$965	$19,617

Interfund transfers recorded in Interfund Payable (Receivable) are used to move loan payments that were deposited for administrative convenience in a fund not holding the loans, to make payments for administrative reimbursements due the General Reserve from the other funds, to pay for loans transferred between funds, and to move payments from Rental Housing to Residential Housing Finance due on outstanding loans between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2003, consist of the following (in thousands):

	Transfer from							
Transfer to — Funds	General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
General Reserve	$ —	$ —	$—	$ —	$ —	$—	$—	$ —
Housing Development	—	—	—	—	—	—	—	—
Rental Housing	—	2,003	—	138	—	—	—	2,141
Residential Housing Finance	7,866	—	—	—	4,336	—	—	12,202
Single Family	—	—	—	—	—	—	—	—
State Appropriated	—	—	—	—	—	—	—	—
Federal Appropriated	—	—	—	—	—	—	—	—
Agency-wide Totals	$7,866	$2,003	$—	$138	$4,336	$—	$—	$14,343

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

In conjunction with the issuance of Rental Housing series 2002A bonds and an economic refunding opportunity, the remaining Housing Development bonds were refunded and the remaining loans transferred to Rental Housing series 2002A. $2.003 million of residual net assets in Housing Development were transferred to Rental Housing. Housing Development was then closed.

Net Assets

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low-and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile. The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2003, in thousands.

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Housing Endowment Fund, General Reserve			
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) will be invested in short term, investment grade paper at market interest rates	$ 29,638		$ 29,638
Unrealized appreciation in fair market value of investments		$2,138	2,138
Subtotal, Housing Endowment Fund, General Reserve	29,638	2,138	31,776
Housing Investment Fund, Residential Housing Finance			
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund will be invested in intermediate to long term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market.	63,466		63,466
Unrealized appreciation in fair market value of investments		1,522	1,522
Subtotal, Housing Investment Fund, Residential Housing Finance	63,466	1,522	64,988
Housing Affordability Fund, Residential Housing Finance			
Funds in excess of 5% of bonds may be used for administration of housing programs, contributions to bond issues, early bond redemptions, and low interest rate loans with higher than ordinary risk factors	167,835		167,835
Unrealized appreciation in fair market value of investments		874	874
Subtotal, Housing Affordability Fund, Residential Housing Finance	167,835	874	168,709
Agency-wide Total	$260,939	$4,534	$265,473

The Housing Endowment Fund is maintained in the Restricted By Covenant Net Assets of General Reserve. The Housing Investment Fund and the Housing Affordability Fund are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage Bond resolution insurance reserve. The amount aggregated $10,718 million at June 30, 2003.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as net assets restricted by law.

Defined Benefit Pension Plan

The Agency contributes to the Minnesota State Retirement System (System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees who retire at "normal" retirement age, or for those hired on or before June 30, 1989, at an age where they qualify for the "Rule of 90" (i.e., at an age where age plus years of service equals or exceeds 90), are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the "step formula" for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the "level formula," whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee's five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The Agency's pension contribution to the System for the year ending June 30, 2003 was $439 thousand.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System's benefit plan is summarized as follows.

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Excess Funded Actuarial Accrued Liability (EFAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	EFAAL as a % of Covered Payroll
07/01/02	$7,673,028	$7,340,397	$332,631	104.53%	$1,915,350	17.37%
07/01/01	7,366,673	6,573,193	793,480	112.07	1,834,042	43.26
07/01/00	6,744,165	6,105,703	638,462	110.46	1,733,054	36.84

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percentage Contributed
2002	6.79%	$1,915,350	$79,487	$50,565	$76,614	151.52%
2001	7.12	1,834,042	74,364	56,220	73,362	130.49
2000	6.12	1,733,054	70,378	35,685	69,322	194.26

*This includes contributions from other sources (if applicable).

The information presented is as of July 1, 2002, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2002, Minnesota State Retirement System Comprehensive Annual Financial Report for a more comprehensive description. A copy of the System's comprehensive annual financial report can be obtained by contacting Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103 or calling (651) 296-2761.

Commitments

As of June 30, 2003, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ —
Housing Development	—
Rental Housing	13,351
Residential Housing Finance	92,713
Single Family	340
State Appropriated	107,711
Federal Appropriated	24,380
Agency-wide Totals	$238,495

The Agency has cancelable lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2003 was $.981 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Year:						
	2004	2005	2006	2007	2008	2009-2010	Total
Amount:	$1,000	$1,025	$1,054	$1,081	$1,109	$1,043	$6,312

The Agency has the option to cancel the lease for office facilities effective May 31, 2004.

The Agency has in place a $15 million line of credit with Wells Fargo Bank Minnesota, N.A. that expires on December 31, 2003. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2003 there was an outstanding advance of $8,562,952. This advance was used to purchase Residential Housing Finance bonds, 2003 Series C, which matured July 24, 2003. This debt is included in Bonds Payable, Net. The line of credit activity for the year ended June 30, 2003, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$0	$8,563	$0	$8,563

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on General Reserve's financial position or results of operations.

Subsequent Events

On June 4, 2003 the Board of the Agency approved series resolutions authorizing the issuance of $65,000,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2003 Series A and 2003 Series B were delivered on July 23, 2003.

On June 26, 2003 the Board of the Agency approved a series resolution authorizing the issuance of $1,945,000 bonds to finance the acquisition and rehabilitation of a multifamily development in Vadnais Heights, Minnesota. The Rental Housing Bonds, 2003 Series B, were delivered on August 14, 2003.

On July 10, 2003 the Board of the Agency approved series resolutions authorizing the issuance of $204,510,000 convertible option bonds. The Residential Housing Finance Bonds, 2003 Series D, 2003 Series E, 2003 Series F, 2003 Series G, and 2003 Series H were delivered on July 23, 2003.

On July 10, 2003 the Board of the Agency approved the remarketing of $23,000,000 convertible option bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Single Family Mortgage Bonds, 2001 Series E were delivered on July 24, 2003.

Subsequent Events (continued)

The Agency called for early redemption subsequent to June 30, 2003 the following bonds:

Program Funds	Retirement Date	Original Par Value
Single Family	July 1, 2003	$47,250,000
Residential Housing Finance	July 1, 2003	2,540,000
Rental Housing	July 8, 2003	1,885,000
Rental Housing	August 1, 2003	19,605,000

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 1999 – 2003

		1999	2000	2001	2002	2003
Loans Receivable, Net	Multifamily programs	$ 381,387	$ 392,010	$ 353,893	$ 337,087	$ 348,196
	Homeownership programs	1,233,716	1,226,528	1,228,105	1,212,436	1,009,937
	Home improvement programs	94,420	99,770	108,860	104,537	92,345
	Total	$1,709,523	$1,718,308	$1,690,858	$1,654,060	$1,450,478
Bonds Payable, Net	Multifamily programs	$ 355,330	$ 337,013	$ 325,314	$ 267,739	$ 246,701
	Homeownership programs	1,726,375	1,637,944	1,640,348	1,668,449	1,579,978
	Home improvement programs	—	—	—	—	20,000
	Total	$2,081,705	$1,974,957	$1,965,662	$1,936,188	$1,846,679
Loans purchased or originated in year	Multifamily programs	$ 17,986	$ 25,419	$ 14,143	$ 18,341	$ 58,607
	Homeownership programs	137,793	165,703	165,633	229,603	145,748
	Home improvement programs	31,808	29,965	40,027	37,281	35,391
	Total	$ 187,587	$ 221,087	$ 219,803	$ 285,225	$ 239,746
Net Assets	Total net assets	$ 513,166	$ 536,748	$ 582,674	$ 612,361	$ 648,459
	Percent of total assets	18.6%	20.0%	21.5%	22.6%	24.6%
Revenues over Expenses	Revenues over expenses for the year(1)	$ 22,286	$ 19,452	$ 42,023	$ 29,687	$ 36,098

Notes:

(1) Includes Administrative Reimbursement revenue received from State Appropriated fund of $5,618 in 2002 and $4,497 in 2003. This revenue item was included in the table beginning in 2002 due to GASB 34 presentation requirements.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2003 (with comparative totals for June 30, 2002)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 2,148	$—	$ 59,695	$408,827	$ 374,664
	Investment securities	118,725	—	43,789	136,735	28,722
	Loans receivable, net	—	—	234,717	417,472	798,289
	Interest receivable on loans	—	—	1,767	2,020	4,245
	Interest receivable on investments	1,074	—	1,282	1,405	492
	Mortgage insurance claims receivable	—	—	—	116	468
	Real estate owned	—	—	—	15	884
	Capital assets, net	733	—	—	—	—
	Other assets	1,135	—	110	504	6
	Total assets	$123,815	$—	$341,360	$967,094	$1,207,770
Liabilities	Bonds payable, net	$ —	$—	$246,701	$522,073	$1,077,905
	Interest payable	—	—	5,529	7,711	30,224
	Deferred revenue	—	—	—	—	—
	Accounts payable and other liabilities	2,458	—	293	1,352	9,665
	Interfund payable (receivable)	2,498	—	21,055	(23,728)	1,500
	Funds held for others	86,350	—	—	(6)	—
	Total liabilities	91,306	—	273,578	507,402	1,119,294
	Commitments and contingencies					
Net Assets	Restricted by bond resolution	—	—	67,782	225,995	88,476
	Restricted by covenant	31,776	—	—	233,697	—
	Restricted by law	—	—	—	—	—
	Invested in capital assets	733	—	—	—	—
	Total net assets	32,509	—	67,782	459,692	88,476
	Total liabilities and net assets	$123,815	$—	$341,360	$967,094	$1,207,770

2003 Total General Reserve and Bond Funds	2002 Total General Reserve and Bond Funds
$ 845,334	$ 759,618
327,971	272,032
1,450,478	1,654,060
8,032	9,352
4,253	6,546
584	497
899	497
733	1,172
1,755	1,348
$2,640,039	$2,705,122
$1,846,679	$1,936,188
43,464	48,347
—	—
13,768	13,361
1,325	587
86,344	94,278
1,991,580	2,092,761
382,253	352,166
265,473	259,023
—	—
733	1,172
648,459	612,361
$2,640,039	$2,705,122

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2003 (with comparative totals for the year ended June 30, 2002)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$ 599	$18,079	$ 25,504	$64,885
	Interest earned on investments	1,690	224	3,398	14,743	15,888
	Administrative reimbursement	14,372	—	—	—	—
	Fees earned	7,362	—	1,092	455	—
	Unrealized gains (losses) on securities	424	(32)	1,140	1,986	1,876
	Total revenues	23,848	791	23,709	42,688	82,649
Expenses	Interest	—	1,383	16,247	15,652	67,741
	Loan administration and trustee fees	—	4	270	2,322	3,352
	Administrative reimbursement	—	54	1,393	2,453	5,274
	Salaries and benefits	13,124	—	—	—	—
	Other general operating	5,915	—	—	628	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	—	(331)	—
	Provision for loan losses	—	(7)	(1,446)	3,366	193
	Total expenses	19,039	1,434	16,464	24,090	76,560
	Revenues over (under) expenses	4,809	(643)	7,245	18,598	6,089
Other changes	Non-operating transfer of assets between funds	(8,856)	(2,003)	2,141	13,054	(4,336)
	Change in net assets	(4,047)	(2,646)	9,386	31,652	1,753
Net Assets	Total net assets, beginning of year	36,556	2,646	58,396	428,040	86,723
	Total net assets, end of year	$32,509	$ —	$67,782	$459,692	$88,476

2003 Total General Reserve and Bond Funds	2002 Total General Reserve and Bond Funds
$109,067	$117,498
35,943	39,689
14,372	20,488
8,909	8,209
5,394	1,458
173,685	187,342
101,023	114,338
5,948	7,073
9,174	14,186
13,124	11,985
6,543	5,976
(331)	4,415
2,106	(318)
137,587	157,655
36,098	29,687
—	—
36,098	29,687
612,361	582,674
$648,459	$612,361

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2003 (with comparative totals for the year ended June 30, 2002)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 461	$ 36,498	$ 106,214	$ 295,902
	Investment in loans	—	—	(1,273)	(211,620)	(26,853)
	Interest received on loans	—	790	17,895	26,059	64,026
	Other operating	—	—	—	(628)	—
	Fees received	7,168	—	1,092	471	—
	Salaries, benefits and vendor payments	(18,494)	(6)	(272)	(2,491)	(3,386)
	Administrative reimbursement from funds	14,660	(54)	(1,441)	(2,384)	(5,287)
	Interest transferred to funds held for others	(3,468)	—	—	—	—
	Deposits into funds held for others	34,426	—	—	25	—
	Disbursements made from funds held for others	(42,349)	—	—	(36)	—
	Interfund transfers and other assets	(400)	—	(94)	2,133	(1,705)
	Net cash provided (used) by operating activities	(8,457)	1,191	52,405	(82,257)	322,697
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	—	40,400	406,423	—
	Principal repayment on bonds	—	(32,410)	(29,725)	(257,865)	(218,270)
	Interest paid on bonds and notes	—	(1,721)	(13,930)	(12,083)	(71,304)
	Financing costs paid related to bonds issued	—	—	(362)	(1,704)	—
	Interest paid/received between funds	—	—	(1,553)	1,553	—
	Principal paid/received between funds	—	—	(115)	115	—
	Premium paid on redemption of bonds	—	(316)	—	—	(787)
	Agency contribution to program funds	—	(2,003)	2,141	4,198	(4,336)
	Transfer of cash between funds	(7,866)	—	—	7,866	—
	Net cash provided (used) by noncapital financing activities	(7,866)	(36,450)	(3,144)	148,503	(294,697)
Cash flows from investing activities	Investment in real estate owned	—	—	—	(30)	(399)
	Interest received on investments	4,814	156	3,798	13,807	16,804
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	—	346	3,688
	Proceeds from maturity, sale or transfer of investment securities	52,084	8,318	45,400	168,036	6,904
	Purchase of investment securities	(65,518)	—	(51,473)	(196,985)	(15,959)
	Purchase of loans between funds		25,990	(25,990)	—	—
	Net cash provided (used) by investing activities	(8,620)	34,464	(28,265)	(14,826)	11,038
	Net increase (decrease) in cash and cash equivalents	(24,943)	(795)	20,996	51,420	39,038
Cash and cash equivalents	Beginning of year	27,091	795	38,699	357,407	335,626
	End of year	$ 2,148	$ —	$ 59,695	$ 408,827	$ 374,664

2003 Total General Reserve and Bond Funds	2002 Total General Reserve and Bond Funds
$ 439,075	$ 316,442
(239,746)	(285,225)
108,770	116,241
(628)	—
8,731	7,852
(24,649)	(23,652)
5,494	6,086
(3,468)	(4,166)
34,451	25,852
(42,385)	(29,031)
(66)	(264)
285,579	130,135
446,823	515,485
(538,270)	(545,965)
(99,038)	(114,340)
(2,066)	(2,812)
—	—
—	—
(1,103)	(230)
—	—
—	—
(193,654)	(147,862)
(429)	(581)
39,379	44,942
4,034	5,535
280,742	145,951
(329,935)	(254,822)
—	—
(6,209)	(58,975)
85,716	(76,702)
759,618	836,320
$ 845,334	$ 759,618

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2003 (with comparative totals for the year ended June 30, 2002)

Reconciliation of revenues over (under) expenses to net cash provided (used) by operating activities

		Bond Funds			
	General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$ 4,809	$ (643)	$ 7,245	$ 18,598	$ 6,089
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:					
Amortization of premiums (discounts) and fees on loans	—	—	(93)	816	(2,092)
Depreciation	539	—	—	—	—
Loss on disposal of fixed assets	571	—	—	—	—
Realized losses (gains) on sale of securities, net	(610)	(122)	87	(443)	(99)
Unrealized losses (gains) on securities, net	(424)	32	(1,140)	(1,986)	(1,876)
Provision for loan losses	—	(7)	(1,446)	3,366	193
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	—	(331)	—
Capitalized interest on loans and real estate owned	—	—	(57)	(25)	(266)
Interest earned on investments	(1,080)	(102)	(3,604)	(14,855)	(16,560)
Interest expense on bonds and notes	—	1,383	16,247	15,652	67,741
Changes in assets and liabilities:					
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	461	35,225	(105,406)	269,049
Decrease (increase) in interest receivable on loans	—	191	(34)	(236)	1,399
Arbitrage rebate liability	—	—	119	555	871
Decrease in deferred revenue	—	—	—	—	—
Interest transferred to funds held for others	(3,468)	—	—	—	—
(Increase) in accounts payable	(565)	(2)	(2)	(153)	(31)
Increase (decrease) in interfund payable, affecting operating activities only	288	—	(143)	2,311	(1,718)
Decrease in funds held for others	(7,923)	—	—	(11)	—
Other	(594)	—	1	(109)	(3)
Total	(13,266)	1,834	45,160	(100,855)	316,608
Net cash provided (used) by operating activities	$ (8,457)	$1,191	$52,405	$ (82,257)	$322,697

2003 Total General Reserve and Bond Funds	2002 Total General Reserve and Bond Funds
$ 36,098	$ 29,687
(1,369)	(581)
539	562
571	—
(1,187)	(187)
(5,394)	(1,458)
2,106	(318)
(331)	4,415
(348)	(341)
(36,201)	(44,645)
101,023	114,338
199,329	31,217
1,320	(722)
1,545	5,238
—	(212)
(3,468)	(4,166)
(753)	1,275
738	(513)
(7,934)	(3,179)
(705)	(275)
249,481	100,448
$285,579	$130,135

Other Information

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